

THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY AND EXHIBITS

OF

JACQUELINE R. CHERRY

AUGUST 10, 2006



DOCKET NO. 2006-3-E

**Duke Power Company LLC d/b/a
Duke Energy Carolinas, LLC
Annual Review of Base Rates for Fuel Costs**

TESTIMONY OF JACQUELINE R. CHERRY**ON BEHALF OF****THE OFFICE OF REGULATORY STAFF****DOCKET NO. 2006-3-E****IN RE: DUKE POWER COMPANY LLC****d/b/a DUKE ENERGY CAROLINAS, LLC****ANNUAL REVIEW OF BASE RATES FOR FUEL COSTS**

Q. PLEASE STATE FOR THE RECORD YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Jacqueline R. Cherry. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina, 29201. I am employed by the Office of Regulatory Staff ("ORS") in the Audit Department, as an Audit Manager.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a B.S. Degree in Business Administration, with a major in Accounting from Johnson C. Smith University in 1976. From February 1979 to October 2004, I was employed as an auditor with the Public Service Commission of South Carolina (the "Commission") and participated in cases involving the regulation of gas, electric, telephone, water and wastewater utilities. In October 2004, I began employment

1 as an Audit Manager with the Office of Regulatory Staff.

2 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
3 **PROCEEDING?**

4 **A.** The purpose of my testimony is to present the results of ORS Audit
5 Staff's examination of Duke Power Company LLC d/b/a Duke Energy
6 Carolinas, LLC ("the Company" or "Duke") Fuel Adjustment Clause
7 ("FAC") operation for the current review period of July 2005 through
8 September 2006 (Docket No. 2006-3-E). The findings of the
9 examination are set forth below and in the exhibits attached to this
10 testimony.

11 **Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR PREFILED**
12 **TESTIMONY.**

13 **A.** I have attached the ORS Audit Report which includes Audit Exhibits
14 JRC-1 through JRC-7. The contents of the Audit Report were either
15 prepared by me or were prepared under my direction and supervision.

16 **Q. WHAT WAS THE PURPOSE OF YOUR AUDIT?**

17 **A.** The purpose of the audit was to determine whether the Company's
18 accounting practices in computing and applying the monthly Fuel
19 Adjustment Clause have been in compliance with the S.C. Code Ann.
20 §58-27-865 (Supp. 2005). To accomplish this task, ORS examined the
21 components surrounding the operation of the clause.

22 **Q. WHAT WAS THE SCOPE OF ORS' EXAMINATION?**

1 **A.** ORS Audit Staff examined and traced the monthly fuel adjustment factor
2 calculations and the fuel recovery balances as recorded in the
3 Company's books and records. The current fuel review covered the
4 period July 2005 through September 2006. However, the ORS Audit
5 Staff was unable to examine the months of July, August and September
6 2006 because actual figures were not available. Estimated figures were
7 used for those three months. The examination consisted of:

- 8 1. Analyzing the Fuel Stock Account – Account # 151
- 9 2. Verifying Receipts to the Fuel Stock Account – Account # 151
- 10 3. Verifying Charges to Nuclear Fuel Expense -- Account # 518
- 11 4. Verifying Purchased & Interchange Power Fuel Costs
- 12 5. Verifying KWH Sales
- 13 6. Comparing Coal Costs
- 14 7. Verifying Duke's Compliance with Its Spot Coal Purchasing
15 Process
- 16 8. Recalculating the Fuel Costs Adjustment Factors and Verifying
17 the Unbilled Revenue
- 18 9. Recalculating the True-up for the Over/Under-Recovered Fuel
19 Costs

20 **Q. PLEASE ELABORATE ON ORS AUDIT STAFF'S COMPUTATION OF**
21 **THE TRUE-UP OF OVER/UNDER-RECOVERED FUEL COSTS.**

1 **A.** The ORS Audit Staff analyzed the cumulative over/under-recovery of
2 fuel costs that the Company incurred for the period July 2005 through
3 June 2006. The cumulative over-recovery amount totaled \$6,984,672
4 as of June 2006. ORS then added the projected under-recovery of
5 (\$6,631,182) for the month of July 2006, the projected under-recovery
6 of (\$5,305,337) for the month of August 2006 and the projected over-
7 recovery of \$29,328 for September 2006 to arrive at a cumulative
8 under-recovery of (\$4,922,519) as of September 2006. The Company's
9 prefiled testimony in this docket states the Company's cumulative
10 under-recovery as of September 2006 totals (\$4,920,000). (Docket No.
11 2006-3-E, Direct Testimony of Janice D. Hager, Hager Exhibit 5). The
12 difference between the Company's and ORS' cumulative under-
13 recovery, as of September 2006, totals (\$2,519), which will be
14 discussed later in this testimony. ORS' actual cumulative over-recovery
15 of fuel costs as of June 2006 totaled \$6,984,672. The Company's
16 prefiled testimony in this docket lists the cumulative over-recovery total
17 as of actual June 2006 totaling \$6,987,000. (Docket No. 2006-3-E,
18 Direct Testimony of Janice D. Hager, Hager Exhibit 5). The difference
19 between the Company's and ORS' cumulative over-recovery as of
20 actual June 2006 totals \$2,328 (due to rounding). Audit Exhibit JRC-7,
21 entitled "S. C. Retail Comparison of Fuel Revenues & Expenses"
22 provides explanations for the ORS' cumulative over-recovery balance

1 as of June 2006, and the ORS' cumulative under-recovery balance as
2 of September 2006.

3 As stated in the Company's Adjustment for Fuel Costs, fuel costs will be
4 included in base rates to the extent determined reasonable and proper
5 by the Commission.

6 **Q. PLEASE DESCRIBE THE ORS AUDIT STAFF'S EXHIBITS.**

7 **A.** ORS prepared audit exhibits from the Company's books and records
8 reflecting fuel costs during the review period. Specifically, these
9 exhibits include the following:

10 Audit Exhibit JRC-1: Coal Cost Statistics

11 Audit Exhibit JRC-2: Received Coal - Cost Per Ton Comparison

12 Audit Exhibit JRC-3: Detail of Nuclear Cost

13 Audit Exhibit JRC-4: Total Burned Cost (Fossil and Nuclear)

14 Audit Exhibit JRC-5: Cost of Fuel

15 Audit Exhibit JRC-6: Factor Computation

16 Audit Exhibit JRC-7: S.C. Retail Comparison of Fuel Revenues &
17 Expenses

18 **Q. DID YOU NOTE ANY DIFFERENCES BETWEEN ORS'**
19 **CALCULATION OF THE UNDER-COLLECTION AND THE**
20 **COMPANY'S?**

1 **A.** Yes, I did. Each of the differences identified is described in one of three
2 footnotes to Audit Exhibit JRC-7 of the Report of the ORS Audit
3 Department in this docket.

4 **Q. PLEASE EXPLAIN FOOTNOTE (1) TO AUDIT EXHIBIT JRC-7.**

5 **A.** The first footnote addresses ORS Audit Staff's cumulative under-
6 recovery balance brought forward from June 2005 of (\$2,669,646), as
7 reflected on this exhibit. The Company's beginning cumulative under-
8 recovery balance reflected July 2005's monthly fuel entry, on a rounded
9 basis, of (\$10,921,000). The Company's per books balance in the
10 Deferred Account (Account # 456.53) reflected the write-off of the
11 cumulative balance as of June 30, 2005 in accordance with the Public
12 Service Commission's Order No. 2004-603. It should be noted that the
13 Company, in its testimony, has included a true-up to the ORS beginning
14 balance, on a rounded basis, in a September 2005 under-recovery
15 accounting adjustment of (\$2,670,000) to the Deferred Fuel Account
16 (Docket No. 2006-3-E, Direct Testimony of Janice D. Hager, Hager
17 Exhibit 5). This true-up reflects the effect on the cumulative balance of
18 the Deferred Account for additional Purchased Power Costs based on
19 the S.C. Fuel Statute.

20 **Q. PLEASE EXPLAIN FOOTNOTE (2) TO AUDIT EXHIBIT JRC-7.**

21 **A.** The second footnote addresses ORS Audit Staff's adjustments to the
22 Company's Purchased Power Costs, on a total system basis. ORS

1 Audit Staff's Purchased Power figures for July 2005 through June 2006
2 and the resultant over/under-recovery monthly deferred fuel amounts
3 reflects Duke's compliance with the fuel statute, S.C. Code Ann. §58-
4 27-865 (Supp. 2005), which addresses "fuel costs related to purchased
5 power." The statute provides that the fuel costs related to purchase
6 power include the total delivered cost of economy purchases, including,
7 but not limited to, transmission charges. The statute defines economy
8 purchases as purchases made to displace higher cost generation, at a
9 price which is less than the purchasing utility's avoided variable costs
10 for the generation of an equivalent quantity of electric power. Duke
11 reflects its Purchased Power figures that contain purchases with non-
12 identifiable fuel costs on a N.C. Fuel Clause basis, which uses a
13 percentage-computed fuel proxy. Identifiable fuel costs are recorded as
14 invoiced or as documented. In order to comply with this S.C. Statute,
15 Duke adjusted its Purchased Power Costs for the review period to
16 reflect the purchase costs allowable under the S.C. Fuel Adjustment
17 Clause. Therefore, after Duke applied this statute to the examined
18 economic purchases along with the applicable avoided costs, Duke's
19 adjustment increased the Purchased Power Costs of \$28,933,780 for
20 the review period, on a total system--native load basis by \$13,931,057,
21 which resulted in a total of \$42,864,837. ORS also examined the
22 economic purchases along with the applicable avoided costs for the

1 review period. ORS agrees with Duke's increase to Purchased Power

2 Costs, on a total system--native load basis, by \$13,931,057.

3 **Q. DID THE COMPANY MAKE ANY ADJUSTMENTS OR TRUE-UPS**
4 **DURING THE ACTUAL REVIEW PERIOD?**

5 **A.** Yes. My third footnote in Audit Exhibit JRC-7 explains that during the
6 review period, the Company made various accounting adjustments to
7 the per books cumulative balance in the Deferred Fuel Account. On
8 Audit Exhibit JRC-7, ORS reflects Company accounting adjustments
9 made to the per books cumulative balances in the Deferred Fuel
10 Account in September 2005 and January 2006. The adjustments for
11 those months are as follows: (a) In September 2005, the Company
12 made an adjustment to write off the final amount attributable to PSC
13 Order No. 2004-603, which approved the Company's request to "forgo
14 and write off the recovery of fuel costs of up to \$16 million" through
15 September 30, 2005. This final figure was an over-recovery amount of
16 \$5,029,850; and (b) In January 2006, Duke made three over-recovery
17 adjustments which totaled \$57,357 for corrections to October,
18 November and December 2005. The Company corrected its S.C. KWH
19 Sales figures for October and December 2005, which resulted in over-
20 recovery adjustments to the cumulative balance in the Deferred
21 Account of \$13,270 and \$15, respectively. Duke revised its Intersystem
22 Sales amount for November to reflect an increase in a Nantahala sale,

1 which resulted in an over-recovery adjustment to the Deferred Account
2 of \$44,072. ORS agreed with these adjustments.

3 For two months during the review period, October 2005 and May 2006,
4 Duke also booked adjustments to the cumulative balance of the
5 Deferred Account. An over-recovery adjustment booked in October
6 2005 for \$2,088 was for a correction to September 2005 System KWH
7 Sales. An over-recovery adjustment booked in May 2006 for \$6,682
8 was for a revision to the Catawba Joint Owners' portion of Purchased
9 Power Costs in April 2006. For September 2005 and April 2006's
10 monthly PSC-filed Company fuel information, which is generally filed at
11 least a month later, ORS' PSC-filed copies reflected the revised
12 September 2005 and April 2006 fuel figures, which ORS verified during
13 its audit. ORS also verified for booking purposes, that Duke booked the
14 revised information on a true-up basis in October 2005 and May 2006,
15 respectively. However, since ORS received this information on a
16 revised basis, ORS reflected September 2005 and April 2006, as filed,
17 on the revised basis in Audit Exhibit JRC-7. Therefore, ORS did not
18 reflect the corrections/revisions booked as accounting adjustments in
19 October 2005 and May 2006, on Audit Exhibit JRC-7, because the
20 information would have been reflected twice.

21 **Q. WHAT WAS THE RESULT OF THE ORS AUDIT DEPARTMENT'S**
22 **EXAMINATION?**

1 **A.** Based on the ORS Audit Staff's examination of the Company's books
2 and records, and its operation of the fuel cost recovery mechanism
3 directed by the Commission, the ORS Audit Department is of the
4 opinion that, subject to the adjustments presented in Footnotes (1)
5 through (3), the Company's books and records accurately reflect the
6 fuel costs incurred by the Company in accordance with previous
7 Commission orders and with S.C. Code Ann. § 58-27-865.

8 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

9 **A.** Yes, it does.

**REPORT OF THE AUDIT DEPARTMENT
THE OFFICE OF REGULATORY STAFF**

DOCKET NO. 2006-3-E

**DUKE POWER COMPANY LLC
d/b/a DUKE ENERGY CAROLINAS, LLC**

REPORT OF THE AUDIT DEPARTMENT

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2006-3-E

**DUKE POWER COMPANY LLC
d/b/a DUKE ENERGY CAROLINAS, LLC**

ANNUAL REVIEW OF BASE RATES FOR FUEL COSTS

**REVIEW PERIOD: JULY 1, 2005 – JUNE 30, 2006 (ACTUAL)
JULY 1, 2006 – SEPTEMBER 30, 2006 (ESTIMATED)**

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Note: All of the ORS Audit Exhibits were prepared by the ORS Audit Staff.

REPORT OF THE AUDIT DEPARTMENT
DOCKET NO. 2006-3-E
DUKE POWER COMPANY LLC
d/b/a DUKE ENERGY CAROLINAS, LLC
ANNUAL REVIEW OF BASE RATES FOR FUEL COSTS

ANALYSIS

The Office of Regulatory Staff ("ORS") Audit Department has made an examination of the books and records of Duke Power Company LLC d/b/a Duke Energy Carolinas, LLC (hereinafter referred to as "the Company" or "Duke") pursuant to the requirements under Docket No. 2006-3-E and S.C. Code Ann. §58-27-865, that periodic hearings be conducted before the Commission concerning the Adjustment of Base Rates for Fuel Costs.

The current examination of Duke's Retail Fuel Adjustment Clause covered the period of July 2005 through September 2006. However, the ORS Audit Department did not examine the months of July, August, and September 2006 because the per book figures were not available during the audit. The amounts of over/under-recovery for July 2006, August 2006 and September 2006 were estimated for the purpose of adjusting base rates effective October 1, 2006. The estimates for these three months will be subject to true-up at the Company's next hearing.

The ORS Audit Department's examination consisted of the following:

1. Analyzing the Fuel Stock Account -- Account # 151
2. Verifying Receipts to the Fuel Stock Account -- Account #151
3. Verifying Charges to Nuclear Fuel Expense -- Account # 518
4. Verifying Purchased and Interchange Power Fuel Costs
5. Verifying KWH Sales
6. Comparing Coal Costs
7. Verifying Duke's Compliance with Its Spot Coal Purchasing Process
8. Recalculating the Fuel Costs Adjustment Factors and Verifying Unbilled Revenues
9. Recalculating the True-up for the Over/Under-Recovered Fuel Costs

1. ANALYZING THE FUEL STOCK ACCOUNT - ACCOUNT # 151

ORS' analysis of the Fuel Stock Account consisted of tracing receipts to the fuel management system and issues from the fuel management system to the General Ledger, reviewing monthly fuel charges originating in fuel accounting, and ensuring that only proper charges are entered in the Company's computation of fuel costs for purposes of adjusting base rates for fuel costs.

2. VERIFYING RECEIPTS TO THE FUEL STOCK ACCOUNT- ACCOUNT #151

ORS' testing of coal receipts to the Fuel Stock Account consisted of randomly selecting transactions and tracing each of these randomly selected transactions to a waybill, purchase order and freight voucher for documentation purposes. It also consisted of recalculating the transactions to insure mathematical accuracy.

3. VERIFYING CHARGES TO NUCLEAR FUEL EXPENSE - ACCOUNT # 518

ORS traced the expense amounts for nuclear fuel to the books and records for the period July 2005 through June 2006 to verify the accuracy of the expenses to fuel amortization schedules.

4. VERIFYING PURCHASED AND INTERCHANGE POWER FUEL COSTS

ORS performed an examination of the Company's purchased and interchange power amounts used in the Fuel Adjustment Clause ("FAC") for the period July 2005 through June 2006.

ORS obtained the detail of the purchases and sales made by Duke to and from other electric utilities or power marketers. ORS verified the amounts that are being used in computing total fuel costs for each month. These details allowed the ORS to identify fuel costs that are being passed through the clause in computing the factor above or below the base for each period. See ORS' Audit Exhibit JRC-5 for details.

ORS' Purchased Power figures for July 2005 through June 2006 and the resultant over/under-recovery monthly deferred fuel amounts for July 2005 through June 2006 reflect calculations which comply with S.C. Code Ann. §58-27-865. This statute addresses "fuel costs related to purchased power." Subsection (A)(2)(b) of this statute states that the total delivered cost of economy purchases, including (but not limited to) transmission charges, could be included in Purchased Power Costs if those types of purchases were proven to be less than the purchasing utility's avoided variable costs for the generation of an equivalent quantity of electric power. Duke reflects its Purchased Power figures that contain purchases with non-identifiable fuel costs on a N.C. Fuel Clause basis, which uses a percentage-

computed fuel proxy. Identifiable fuel costs are recorded as invoiced or as documented. In order to comply with the S.C. Statute, Duke adjusted its Purchased Power Costs for the review period to reflect the purchase costs allowable under the S.C. Fuel Adjustment Clause. Therefore, after Duke applied this statute to the examined economic purchases along with the applicable avoided costs, Duke's adjustment increased the Purchased Power Costs of \$28,933,780 for the review period, on a total system--native load basis by \$13,931,057, which resulted in a total of \$42,864,837. ORS also examined the economic purchases along with the applicable avoided costs for the review period. ORS agrees with Duke's increase to Purchase Power Costs, on a total system--native load basis, by \$13,931,057. This figure reflects the usage of the purchased energy cost as a lesser price, at that point in time, over Duke's avoided cost.

ORS traced the sales and purchases transactions for July 2005 through June 2006 to the Company's sales and purchases monthly reports and, on a sample basis, traced to monthly invoices. ORS recomputed the sales and purchases.

5. VERIFYING KWH SALES

ORS verified total system sales, as filed in the monthly fuel factor computation, for the months of July 2005 through June 2006. This monthly figure was then used to determine the fuel cost per KWH sold.

6. COMPARING COAL COSTS

ORS prepared exhibits based upon information obtained from Duke's books and records reflecting coal costs during the review period. Specifically, these exhibits are as follows:

Audit Exhibit JRC-1: COAL COST STATISTICS

Audit Exhibit JRC-1, titled Coal Cost Statistics, provides a detailed analysis of spot and contract coal for the twelve (12) months ended June 2006. Additionally, the Weighted Average of Coal Received is reflected in Audit Exhibit JRC-1 for the twelve-month period. Total costs for the twelve-month period were divided by the total tons for the twelve-month period in arriving at the average costs per ton received of \$60.07.

Audit Exhibit JRC-2: RECEIVED COAL - COST PER TON COMPARISON

Audit Exhibit JRC-2, titled Received Coal - Cost Per Ton Comparison, reflects the overall cost per ton of coal by month for the three major electric utilities regulated by this Commission.

7. VERIFYING DUKE'S COMPLIANCE WITH ITS SPOT COAL PURCHASING PROCESS

ORS verified the procedure followed by the Company's fossil fuel area, the Regulated Fuels Procurement Section, for obtaining and accepting bids on spot coal. To achieve this, ORS requested spot coal offers for the audit period of July 2005 through June 2006. ORS examined the spot coal offers for the months of July 2005 through April 2006. According to the Regulated Fuels Procurement Section, the Company did not have any spot coal offers for the months of May 2006 and June 2006.

The Regulated Fuels Procurement Section maintains a list of coal vendors (suppliers) from whom bids are solicited. When bids are requested, the Regulated Fuels Procurement Section electronically mails each of these coal vendors a Spot Offer Form and letter requesting bids. These coal vendors generally send their

proposals to the Company via Spot Offer Forms, with each proposal or offer on a separate form. In order for a coal vendor's name to be on this mailing list, the coal vendor must possess the necessary financial, technical, and business resources to supply coal consistent with the Company's requirements.

The Spot Offer Forms require information such as the name of the coal company (the supplier), the name of the producer, the name of the mine, the number of tons offered, coal specifications, price per ton, the month(s) the shipment will be made, mining methods of the producer, and shipping transportation data. It should be noted that these solicitation letters and Spot Offer Forms, based on whether a coal vendor has any coal to sell, are sent to the suppliers when there are near-term needs (one to eleven months) for coal.

If the Company decides to purchase spot coal in a given month, after reviewing its spot coal requirements, then all the bids received are evaluated. The Company normally requires all bids to be made on Spot Offer Forms. For evaluation purposes, ranked bids are reviewed through the Fuel Procurement Information System and an economic analysis is performed. This is in addition to recommending the distribution of the coal to the plants to ensure compliance with sulfur limitations imposed by state and federal regulations, as well as to exclude any coal that may exceed other environmental and generating unit constraints. The Spot Offer Forms are compiled on a Bid Evaluation computer run which is listed alphabetically by plant, with each plant's spot coal offers ranked by cost per MBTU. Also included on the Bid Evaluation computer run is the name of the coal company, the name of the producer, number of

tons offered, coal specifications, the number of tons purchased, the plant to which the coal was shipped, or a reason for rejecting the offer.

The Company's coal procurement personnel consider at least three factors when they evaluate the coal bids: (a) cost of the delivered coal on a cents/MMBTU basis (including freight), (b) the BTU, ash, moisture, volatiles, grindability, ash softening temperature, and SO₂ (sulfur dioxide) content of the coal offered (for operational and environmental purposes), and (c) the past performance of the supplier and the coal obtained from the producer. The Company's coal procurement personnel determine the current market price for coal prior to negotiating with the coal vendors over their bids. In this way, the coal procurement personnel determine the limits they should stay within when bargaining for coal. The coal procurement personnel bargain over the price of the coal as well as other possible terms and conditions of a prospective purchase. Coal procurement personnel will either accept or reject the coal vendor's offer or make a counter-offer to the vendor's offer.

Upon agreement on a coal purchase, the Regulated Fuels Procurement Section executes a contract. Both parties sign the contract. Also, the Regulated Fuels Procurement Section prepares a purchase order, a copy of which is mailed to the coal vendor. The coal vendor takes samples of coal according to ASTM Standards. The samples are sent to an independent fuel laboratory which analyzes each spot coal shipment for BTU, ash, moisture, and SO₂ (sulfur dioxide) content, and periodically analyzes coal for volatiles, grindability, and ash softening temperature. When the coal is received at the plant, the Company also analyzes the coal for the aforementioned qualities and then prepares a coal analysis report. The coal analysis results are

entered into the computerized Fuel Management System, which is used by the Regulated Fuels Procurement Section to monitor coal receipts and to process coal payments. The appropriate premium or penalty on the coal purchased is determined by the Regulated Fuels Procurement Section through the Fuel Management System which adds a premium or assesses a penalty to the total amount due to the coal vendor, and the results are forwarded to the Company's Accounting Section. The Regulated Fuels Procurement Section closely monitors the quality and reliability of coal shipped by various producers. If a certain producer renders poor performance, the coal procurement personnel consider this past performance when analyzing any future offers received from the supplier.

Occasionally, the Regulated Fuels Procurement Section receives unsolicited bids for the purchase of coal. The same procedure used for evaluating solicited bids is utilized when evaluating the offer: determining the need for spot coal, cost, purchasing, sampling, and assessing penalties or premiums.

The Company's spot coal requirements are obtained through short-term commitments with terms that may range from one month to eleven months duration.

During the month of January 2006, the Company transitioned to a new computerized system, Comtrac, for managing the purchase of spot coal. The Regulated Fuels Procurement Section procedures for processing spot coal offers changed during this transition period. Based upon the Company's requirements for spot coal, the Regulated Fuels Procurement Section contacted approved coal vendors to solicit spot offers. The vendors forwarded the Company's Spot Coal Offer forms containing required information, as aforementioned, to the Regulated Fuels

Procurement Section. In some instances, the vendor forwarded a vendor spot offer form. Upon receipt and acceptance of the terms of the spot offer, the Regulated Fuels Procurement Section executed a purchase for the order of spot coal in the Comtrac system.

As mentioned previously, ORS examined spot coal offers received for the months of July 2005 through April 2006. According to the Regulated Fuels Procurement Section, there were no spot offers for the months of May 2006 and June 2006. ORS obtained the Company's Bid Evaluation computer runs for the aforementioned months. During the period of July 2005 through April 2006, Duke received a total of fifty-nine (59) short term coal supply offers. The Company accepted thirty-seven (37) of the fifty-nine (59) offers, and rejected twenty-two (22) offers. Duke cited coal supply maintenance and purchases made at or below market as reasons for acceptance of the offers. In addition, the Company cited rejection criteria due to high offered prices, coal quality issues and coal loading issues. The actual amount of spot coal received for this period is reflected in ORS' Audit Exhibit JRC-1.

8. RECALCULATING THE FUEL COSTS ADJUSTMENT FACTORS AND VERIFYING UNBILLED REVENUES

ORS recalculated the Fuel Costs Adjustment Factors for the months of July 2005 through June 2006 utilizing information obtained from the Company's records.

With reference to fuel cost, ORS verified the Total Fuel Costs for the months of July 2005 through June 2006 to the Company's books and records.

In recalculating the monthly factors, ORS divided the Total Cost of Fuel Burned by Total System Sales to arrive at fuel costs per KWH sales. The base fuel

cost per KWH, included in the base rates, is then subtracted from the fuel cost per KWH sales and the resulting figure represents the fuel cost adjustment above or below base per KWH sales. The South Carolina Retail Jurisdictional KWH deferrals were checked against the Company's records. The actual Unbilled Revenue for each month was verified to the Company's books and records.

9. RECALCULATING THE TRUE-UP FOR THE OVER/UNDER-RECOVERED FUEL COSTS

ORS analyzed the cumulative over-recovery of fuel costs that the Company had incurred for the period July 2005 through June 2006 totaling \$6,984,672. ORS added the projected under-recovery of (\$6,631,182) for the month of July 2006, the projected under-recovery of (\$5,305,337) for the month of August 2006 and the projected over-recovery of \$29,328 for the month of September 2006, to arrive at a cumulative under-recovery of (\$4,922,519) as of September 2006. The Company's cumulative over-recovery, per its testimony in Docket No. 2006-3-E, as of June 2006 totals \$6,987,000, and as of September 2006, the cumulative under-recovery totals (\$4,920,000). The difference between the Company's and the ORS' cumulative over-recovery as of actual June 2006 totals \$2,328 (due to rounding). The difference between the Company's and ORS' cumulative under-recovery, as of September 2006, totals (\$2,519) (due to rounding). Audit Exhibit JRC-7, S.C. Retail Comparison of Fuel Revenues and Expenses, provides the explanation for this cumulative under-recovery difference as of September 2006.

As stated in the Company's S.C. Retail Adjustment for Fuel Costs Rider, fuel costs will be included in base rates to the extent determined reasonable and proper by the Commission.

For the purpose of determining the base cost of fuel in base rates effective October 1, 2006 and based on the audit conducted in accordance with the Commission's guidelines, ORS calculated the under-recovery of (\$4,922,519) as of estimated September 2006.

EXHIBITS

Exhibits relative to this proceeding are identified as follows:

AUDIT EXHIBIT JRC-1: COAL COST STATISTICS (AND WEIGHTED AVERAGE OF COAL RECEIVED)

In Audit Exhibit JRC-1, titled Coal Cost Statistics, ORS compares spot and contract coal received for the period July 2005 through June 2006. The comparison is made in the following five (5) areas:

- (1) Tons Received
- (2) Percentage of Total Tons Received
- (3) Total Received Cost
- (4) Received Cost Per Ton
- (5) Cost Per MBTU

ORS has taken the total received cost for the twelve (12) months and divided this amount by the total tons for the twelve (12) months in arriving at a Weighted Average Cost per ton for the twelve (12)-month period.

AUDIT EXHIBIT JRC-2: RECEIVED COAL - COST PER TON COMPARISON

This audit exhibit reflects the received cost per ton for coal for each month from July 2005 through June 2006 for Duke, Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc. and South Carolina Electric & Gas Company. ORS has shown, for comparison purposes, the invoice cost per ton, freight cost per ton, total cost per ton and the cost per MBTU.

AUDIT EXHIBIT JRC-3: DETAIL OF NUCLEAR COST

In Audit Exhibit JRC-3, ORS has shown in detail, the two components in total nuclear costs. These components are as follows:

1. Burn-up Cost
2. Disposal Cost

AUDIT EXHIBIT JRC-4: TOTAL BURNED COST (FOSSIL AND NUCLEAR)

This audit exhibit reflects the per book cost of burned fuel, including emission allowance expenses, used for generation for the period July 2005 through June 2006 and the percentage of the Total Burned Costs for fossil and nuclear fuel by months. The burned cost of each class of fuel is shown separately.

AUDIT EXHIBIT JRC-5: COST OF FUEL

In Audit Exhibit JRC-5, ORS has computed the total fuel cost applicable to the factor computation. There are three (3) components used in arriving at this cost. These components are as follows:

- (1) Cost of Fuel Burned
- (2) Purchase and Interchange Power Fuel Cost
- (3) Fuel Cost Recovered through Intersystem Sales

Cost of Fuel Burned --- This amount is the burned cost of all fossil and nuclear fuel burned during the period. The costs associated with emission allowances are also reflected. A detail breakdown of coal, oil, gas, emission allowances and nuclear fuel can be seen in Audit Exhibit JRC-4.

Purchase and Interchange Power Fuel Cost --- This amount is the monthly cost of kilowatt hours received by Duke from other electric utilities or power marketers.

Fuel Cost Recovered through Intersystem Sales --- This amount is the fuel-related cost of KWH's sold during the period to another electric utility and /or power marketer.

Total fuel cost applicable to the factor is computed by adding the cost of fuel burned to purchased and interchange power fuel cost. This amount is then reduced by fuel associated with intersystem sales.

AUDIT EXHIBIT JRC-6: FACTOR COMPUTATION

ORS has computed the Fuel Cost Adjustment Factor by month beginning with July 2005 and going through June 2006. In computing this factor, total fuel cost applicable to the Fuel Adjustment Clause is divided by total system sales, excluding intersystem sales. This results in fuel cost per KWH. The fuel cost per KWH is then compared to the base cost per KWH as ordered by the Commission. This variance is reflected as the monthly fuel cost adjustment factor.

AUDIT EXHIBIT JRC-7: S.C. RETAIL COMPARISON OF FUEL REVENUES AND EXPENSES

Shown in this audit exhibit are the actual costs for July 2005 through June 2006 and the estimated fuel costs for July, August and September 2006.

Duke Energy Carolinas
Coal Cost Statistics
July 2005 - June 2006

Spot					
<u>Month</u>	<u>Tons Received</u>	<u>Percentage of Total Tons Received</u>	<u>Total Received Cost</u>	<u>Received Cost Per Ton</u>	<u>Cost Per MBTU</u>
	Tons	%	\$	\$	\$
Jul-05	100,339.90	7.90%	7,640,401.48	76.15	3.0976
Aug-05	144,144.00	8.78%	11,155,512.37	77.39	3.1230
Sep-05	207,115.50	12.53%	15,187,381.99	73.33	2.7300
Oct-05	204,758.45	12.94%	13,855,627.07	67.67	2.6142
Nov-05	198,570.75	13.00%	14,472,326.79	72.88	3.0837
Dec-05	163,990.95	12.54%	11,374,203.71	69.36	2.8511
Jan-06	137,474.35	9.12%	9,919,921.78	72.16	2.8953
Feb-06	173,305.00	11.91%	12,784,769.62	73.77	3.0415
Mar-06	120,487.35	8.38%	8,603,396.39	71.40	3.0033
Apr-06	166,117.32	10.41%	12,058,021.30	72.59	3.0251
May-06	142,693.68	9.07%	10,151,050.56	71.14	2.9140
Jun-06	91,583.25	5.53%	6,406,323.72	69.95	2.8550
Totals (7/05- 6/06)	1,850,580.50		133,608,936.78		

Contract					
<u>Month</u>	<u>Tons Received</u>	<u>Percentage of Total Tons Received</u>	<u>Total Received Cost</u>	<u>Received Cost Per Ton</u>	<u>Cost Per MBTU</u>
	Tons	%	\$	\$	\$
Jul-05	1,169,395.05	92.10%	62,329,891.76	53.30	2.2010
Aug-05	1,498,357.80	91.22%	83,830,489.79	55.95	2.4052
Sep-05	1,446,258.75	87.47%	64,931,422.02	44.90	1.9035
Oct-05	1,378,156.48	87.06%	77,171,920.87	56.00	2.3505
Nov-05	1,329,472.35	87.00%	75,574,128.80	56.85	2.4261
Dec-05	1,144,191.00	87.46%	65,969,646.89	57.66	2.4061
Jan-06	1,370,581.07	90.88%	93,813,448.19	68.45	2.8331
Feb-06	1,282,267.81	88.09%	74,434,532.13	58.05	2.3987
Mar-06	1,316,727.66	91.62%	85,071,784.21	64.61	2.6549
Apr-06	1,429,870.72	89.59%	89,276,802.77	62.44	2.5742
May-06	1,429,882.52	90.93%	88,897,093.04	62.17	2.5557
Jun-06	1,565,499.59	94.47%	98,950,777.17	63.21	2.5040
Totals (7/05- 6/06)	16,360,660.80		960,251,937.64		

Duke Energy Carolinas
Coal Cost Statistics
July 2005 - June 2006

Combined					
<u>Month</u>	<u>Tons Received</u>	<u>Percentage of Total Tons Received</u>	<u>Total Received Cost</u>	<u>Received Cost Per Ton</u>	<u>Cost Per MBTU</u>
	Tons	%	\$	\$	\$
Jul-05	1,269,734.95	100.00%	69,970,293.24	55.11	2.2728
Aug-05	1,642,501.80	100.00%	94,986,002.16	57.83	2.4731
Sep-05	1,653,374.25	100.00%	80,118,804.01	48.46	2.0194
Oct-05	1,582,914.93	100.00%	91,027,547.94	57.51	2.3871
Nov-05	1,528,043.10	100.00%	90,046,455.59	58.93	2.5135
Dec-05	1,308,181.95	100.00%	77,343,850.60	59.12	2.4599
Jan-06	1,508,055.42	100.00%	103,733,369.97	68.78	2.8389
Feb-06	1,455,572.81	100.00%	87,219,301.75	59.92	2.4754
Mar-06	1,437,215.01	100.00%	93,675,180.60	65.18	2.6835
Apr-06	1,595,988.04	100.00%	101,334,824.07	63.49	2.6207
May-06	1,572,576.20	100.00%	99,048,143.60	62.98	2.5883
Jun-06	1,657,082.84	100.00%	105,357,100.89	63.58	2.6180
Totals (7/05- 6/06)	18,211,241.30		1,093,860,874.42		

<u>Total Received Cost</u>	=	<u>\$ 1,093,860,874.42</u>	=	<u>\$ 60.07</u>
<u>Total Tons Received</u>		<u>18,211,241.30</u>		

Note: Exhibit prepared by the ORS Audit Staff.

Duke Energy Carolinas
Received Coal - Cost Per Ton Comparison
July 2005 - June 2006

<u>Duke Energy Carolinas</u>				
<u>Month</u>	<u>Invoice Cost</u> <u>Per Ton</u>	<u>Freight Cost</u> <u>Per Ton</u>	<u>Total Cost</u> <u>Per Ton</u>	<u>Cost</u> <u>Per MBTU</u>
	\$	\$	\$	\$
Jul-05	36.35	18.76	55.11	2.2728
Aug-05	39.32	18.51	57.83	2.4731
Sep-05	38.54	9.92	48.46	2.0194
Oct-05	38.93	18.58	57.51	2.3871
Nov-05	38.84	20.09	58.93	2.5135
Dec-05	39.91	19.21	59.12	2.4599
Jan-06	47.56	21.22	68.78	2.8389
Feb-06	42.07	17.85	59.92	2.4754
Mar-06	47.06	18.12	65.18	2.6835
Apr-06	45.32	18.17	63.49	2.6207
May-06	45.19	17.79	62.98	2.5883
Jun-06	45.03	18.55	63.58	2.6180

Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.

<u>Month</u>	<u>Invoice Cost</u> <u>Per Ton</u>	<u>Freight Cost</u> <u>Per Ton</u>	<u>Total Cost</u> <u>Per Ton</u>	<u>Cost</u> <u>Per MBTU</u>
	\$	\$	\$	\$
Jul-05	46.65	17.84	64.49	2.5956
Aug-05	50.49	17.00	67.49	2.7071
Sep-05	47.50	17.91	65.41	2.6375
Oct-05	51.64	21.47	73.11	2.9536
Nov-05	46.74	18.24	64.98	2.6188
Dec-05	49.02	18.81	67.83	2.7488
Jan-06	50.83	20.40	71.23	2.8849
Feb-06	53.97	20.06	74.03	2.9965
Mar-06	52.30	19.84	72.14	2.9147
Apr-06	49.11	19.61	68.72	2.7730
May-06	51.42	19.54	70.96	2.8715
Jun-06	52.75	19.63	72.38	2.9242

Duke Energy Carolinas
Received Coal - Cost Per Ton Comparison
July 2005 - June 2006

South Carolina Electric & Gas Company

<u>Month</u>	<u>Invoice Cost</u> <u>Per Ton</u>	<u>Freight Cost</u> <u>Per Ton</u>	<u>Total Cost</u> <u>Per Ton</u>	<u>Cost</u> <u>Per MBTU</u>
	\$	\$	\$	\$
Jul-05	46.09	13.88	59.97	2.3723
Aug-05	47.54	13.70	61.24	2.4209
Sep-05	46.86	13.45	60.31	2.3682
Oct-05	48.19	15.01	63.20	2.5476
Nov-05	48.51	13.93	62.44	2.4553
Dec-05	46.33	15.43	61.76	2.4826
Jan-06	47.81	14.91	62.72	2.4344
Feb-06	51.98	12.98	64.96	2.5574
Mar-06	48.75	14.63	63.38	2.5429
Apr-06	52.48	13.85	66.33	2.6267
May-06	48.86	15.34	64.20	2.5404
Jun-06	48.29	14.67	62.96	2.5076

Note: Exhibit prepared by the ORS Audit Staff.

Duke Energy Carolinas
Detail of Nuclear Cost
July 2005 - June 2006

Month	Burn-up Cost	Disposal Cost	Total Nuclear Cost
	\$	\$	\$
Jul-05	11,478,185	3,574,866	15,053,051
Aug-05	2,709,577	3,549,139	6,258,716
Sep-05	12,774,299	2,945,286	15,719,585
Oct-05	11,294,447	2,815,069	14,109,516
Nov-05	9,905,255	2,856,296	12,761,551
Dec-05	11,932,042	3,593,182	15,525,224
Jan-06	12,115,717	3,658,111	15,773,828
Feb-06	10,949,865	3,307,878	14,257,743
Mar-06	11,735,399	3,609,604	15,345,003
Apr-06	10,954,330	3,272,895	14,227,225
May-06	9,601,060	2,938,753	12,539,813
Jun-06	10,828,252	3,198,816	14,027,068
Total	126,278,428	39,319,895	165,598,323

Note: Exhibit prepared by the ORS Audit Staff.

Duke Energy Carolinas
Total Burned Cost (Fossil and Nuclear)
July 2005 - June 2006

Month	Coal (1)	#2 Oil	Gas	Nuclear	Total Burned Cost
	\$	\$	\$	\$	\$
Jul-05	103,554,589	667,704	2,238,269	15,053,051	121,513,613
Aug-05	112,101,882	745,151	2,782,202	6,258,716	121,887,951
Sep-05	91,145,113	1,857,605	1,609,754	15,719,585	110,332,057
Oct-05	78,577,352	1,453,165	693,632	14,109,516	94,833,665
Nov-05	72,683,170	947,717	13,880	12,761,551	86,406,318
Dec-05	81,674,340	1,492,484	206,829	15,525,224	98,898,877
Jan-06	80,124,315	2,611,719	2,190,626	15,773,828	100,700,488
Feb-06	70,553,084	1,453,965	227,031	14,257,743	86,491,823
Mar-06	95,636,638	1,205,386	(93,349)	15,345,003	112,093,678
Apr-06	76,894,574	1,246,849	566,914	14,227,225	92,935,562
May-06	98,674,343	1,977,584	671,201	12,539,813	113,862,941
Jun-06	110,675,528	873,894	539,593	14,027,068	126,116,083
Totals	1,072,294,928	16,533,223	11,646,582	165,598,323	1,266,073,056

(1) Includes Emission Allowance Expense

Note: Exhibit prepared by the ORS Audit Staff.

Duke Energy Carolinas
Cost of Fuel
July 2005 - June 2006

<u>Month</u>	<u>Total Cost of Fuel Burned</u>	<u>Purchased and Interchange Power Fuel Cost</u>	<u>Fuel Cost Recovered from Intersystem Sales</u>	<u>Total Fuel Cost</u>
	\$	\$	\$	\$
Jul-05	121,513,613	2,687,926	(2,854,864)	121,346,675
Aug-05	121,887,951	4,550,134	(19,753,333)	106,684,752
Sep-05	110,332,057	4,237,599	(9,864,283)	104,705,373
Oct-05	94,833,665	4,877,715	(14,220,926)	85,490,454
Nov-05	86,406,318	2,334,550	(8,355,340)	80,385,528
Dec-05	98,898,877	2,304,113	(16,529,050)	84,673,940
Jan-06	100,700,488	587,265	(23,536,309)	77,751,444
Feb-06	86,491,823	1,100,975	(26,649,932)	60,942,866
Mar-06	112,093,678	921,100	(23,695,175)	89,319,603
Apr-06	92,935,562	9,905,636	(10,477,609)	92,363,589
May-06	113,862,941	4,524,856	(12,493,699)	105,894,098
Jun-06	126,116,083	4,832,968	(9,618,965)	121,330,086
Total	1,266,073,056	42,864,837	(178,049,485)	1,130,888,408

Note: Exhibit prepared by the ORS Audit Staff.

Duke Energy Carolinas
Factor Computation
July 2005 - June 2006

<u>Month</u>	<u>Total Fuel Cost</u>	<u>Total System Sales</u> <u>Excluding Intersystem</u>	<u>Fuel Cost Per KWh</u>	<u>Base Cost Per KWh</u>	<u>Fuel Adjustments</u>
		<u>Sales</u>	<u>Sales</u>	<u>Included in Rates</u>	<u>Per KWh</u>
	\$	KWH	\$/KWH	\$/KWH	\$/KWH
Jul-05	121,346,675	7,043,663,000	0.017228	0.011500	(0.005728)
Aug-05	106,684,752	7,861,840,000	0.013570	0.011500	(0.002070)
Sep-05	104,705,373	7,806,750,000	0.013412	0.011500	(0.001912)
Oct-05	85,490,454	6,438,582,000	0.013278	0.015802	0.002524
Nov-05	80,385,528	5,853,873,000	0.013732	0.015802	0.002070
Dec-05	84,673,940	6,380,319,000	0.013271	0.015802	0.002531
Jan-06	77,751,444	6,533,118,000	0.011901	0.015802	0.003901
Feb-06	60,942,866	6,231,874,000	0.009779	0.015802	0.006023
Mar-06	89,319,603	5,912,447,000	0.015107	0.015802	0.000695
Apr-06	92,363,589	6,001,036,000	0.015391	0.015802	0.000411
May-06	105,894,098	5,798,502,000	0.018262	0.015802	(0.002460)
Jun-06	121,330,086	6,802,706,000	0.017836	0.015802	(0.002034)

Note: Exhibit prepared by the ORS Audit Staff.

Duke Energy Carolinas
S.C. Retail Comparison of Fuel Revenues & Expenses
July 2005 - September 2006

	-----ACTUAL-----							
	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06
Fossil Fuel	106,460,562	115,629,235	94,612,472	80,724,149	73,644,767	83,373,653	84,926,660	72,234,080
Nuclear Fuel	15,053,051	6,258,716	15,719,585	14,109,516	12,761,551	15,525,224	15,773,828	14,257,743
Purchased & Interchange Power (2)	2,687,926	4,550,134	4,237,599	4,877,715	2,334,550	2,304,113	587,265	1,100,975
Sub-Total	124,201,539	126,438,085	114,569,656	99,711,380	88,740,868	101,202,990	101,287,753	87,592,798
Less: Fuel Cost Recovered through Intersystem Sales	2,854,864	19,753,333	9,864,283	14,220,926	8,355,340	16,529,050	23,536,309	26,649,932
Total Fuel Costs	121,346,675	106,684,752	104,705,373	85,490,454	80,385,528	84,673,940	77,751,444	60,942,866
Total System KWH Sales Excluding Intersystem Sales	7,043,663,000	7,861,840,000	7,806,750,000	6,438,582,000	5,853,873,000	6,380,319,000	6,533,118,000	6,231,874,000
\$/KWH Sales	0.017228	0.013570	0.013412	0.013278	0.013732	0.013271	0.011901	0.009779
Less: Base Sales (\$/KWH)	0.011500	0.011500	0.011500	0.015802	0.015802	0.015802	0.015802	0.015802
Fuel Adjustment Per KWH	(0.005728)	(0.002070)	(0.001912)	0.002524	0.002070	0.002531	0.003901	0.006023
S.C. KWH Sales (000's)	1,906,553	2,157,117	2,088,261	1,795,957	1,695,074	1,764,319	1,776,344	1,767,429
Over/(Under) Recovery	(10,920,736)	(4,465,232)	(3,992,755)	4,532,995	3,508,803	4,465,491	6,929,518	10,645,225
Cumulative Over/(Under) Recovery - June 2005	(2,669,646)	(1)						
Accounting Adjustments (3)			5,029,850				57,357	
Cumulative Over/(Under) Recovery this Period	(13,590,382)	(18,055,614)	(17,018,519)	(12,485,524)	(8,976,721)	(4,511,230)	2,475,645	13,120,870

Please Note:

In Audit Exhibit JRC-7, ORS reflects Over-Recovery amounts without parentheses and reflects (Under)-Recovery amounts with parentheses.

*Explanation of Footnotes (1) through (3) on Audit Exhibit JRC-7, Pages 3 and 4.

Note: Exhibit prepared by the ORS Audit Staff.

Duke Energy Carolinas
S.C. Retail Comparison of Fuel Revenues & Expenses
July 2005 - September 2006

	-----ACTUAL-----				-----ESTIMATED-----		
	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06
Fossil Fuel	96,748,675	78,708,337	101,323,128	112,089,015	150,807,000	150,809,000	121,588,000
Nuclear Fuel	15,345,003	14,227,225	12,539,813	14,027,068	15,632,000	15,632,000	13,694,000
Purchased & Interchange Power (2)	921,100	9,905,636	4,524,856	4,832,968	2,411,000	2,411,000	2,411,000
Sub-Total	113,014,778	102,841,198	118,387,797	130,949,051	168,850,000	168,852,000	137,693,000
Less: Fuel Cost Recovered through Intersystem Sales	23,695,175	10,477,609	12,493,699	9,618,965	19,914,000	19,914,000	19,914,000
Total Fuel Costs	89,319,603	92,363,589	105,894,098	121,330,086	148,936,000	148,938,000	117,779,000
Total System KWH Sales Excluding Intersystem Sales	5,912,447,000	6,001,036,000	5,798,502,000	6,802,706,000	7,851,128,000	8,176,403,000	7,459,979,000
\$/KWH Sales	0.015107	0.015391	0.018262	0.017836	0.018970	0.018216	0.015788
Less: Base Sales (\$/KWH)	0.015802	0.015802	0.015802	0.015802	0.015802	0.015802	0.015802
Fuel Adjustment Per KWH	0.000695	0.000411	(0.002460)	(0.002034)	(0.003168)	(0.002414)	0.000014
S.C. KWH Sales (000's)	1,606,021	1,670,377	1,650,703	1,906,676	2,093,176	2,197,737	2,094,838
Over/(Under) Recovery	1,116,185	686,525	(4,060,729)	(3,878,179)	(6,631,182)	(5,305,337)	29,328
Cumulative Over/(Under) Recovery - 02/06 (p.1 of 4)	13,120,870						
Accounting Adjustments (3)							
Cumulative Over/(Under) Recovery this Period	14,237,055	14,923,580	10,862,851	6,984,672	353,490	(4,951,847)	(4,922,519)

Please Note:

In Audit Exhibit JRC-7, ORS reflects Over-Recovery amounts without parentheses and reflects (Under)-Recovery amounts with parentheses.

*Explanation of Footnotes (1) through (3) on Audit Exhibit JRC-7, Pages 3 and 4.

Note: Exhibit prepared by the ORS Audit Staff.

Duke Energy Carolinas
S. C. Retail Comparison of Fuel Revenues & Expenses
July 2005 – September 2006

Explanation of Footnotes to Audit Exhibit JRC-7:

- (1) ORS' cumulative under-recovery balance brought forward from June 2005 of (\$2,669,646) is reflected on this exhibit as a line item under the monthly July 2005 fuel figures. The Company's beginning cumulative under-recovery balance reflected July 2005's monthly fuel entry, on a rounded basis, of (\$10,921,000). The Company's per books balance in the Deferred Account (Account # 456.53) reflected the write-off of the cumulative balance as of June 30, 2005 in accordance with the Public Service Commission's Order No. 2004-603. It should be noted that the Company, in its testimony, has included a true-up to the ORS beginning balance, on a rounded basis, in a September 2005 accounting adjustment of (\$2,670,000) to the Deferred Fuel Account (Docket No. 2006-3-E, Direct Testimony of Janice D. Hager, Hager Exhibit 5). This true-up reflects the effect on the cumulative balance of the Deferred Account for additional Purchased Power Costs based on the S.C. Fuel Statute.
- (2) ORS' Purchased Power figures for July 2005 through June 2006 and the resultant over/under-recovery monthly deferred fuel amounts for July 2005 through June 2006 reflects Duke's compliance with the S.C. Fuel Statute (updated as of February 2004), S.C. Code Ann. §58-27-865 (Supp. 2005), which addresses "fuel costs related to purchased power." Sub-section (A)(2)(b) of the statute stated that the delivered cost of economy purchases, including, but not limited to, transmission charges, could be included in Purchased Power Costs if those types of purchases were proven to be "less than the purchasing utility's avoided variable costs for the generation of an equivalent quantity of electric power." Duke reflects its Purchased Power figures that contain purchases with non-identifiable fuel costs on a N.C. Fuel Clause basis, which uses a percentage-computed fuel proxy. Identifiable fuel costs are recorded as invoiced or as documented. In order to comply with the S.C. Statute, Duke adjusted its Purchased Power Costs for the review period to reflect the purchase costs allowable under the S.C. Fuel Adjustment Clause. Therefore, after Duke applied this statute to the examined economic purchases along with the applicable avoided costs, Duke's adjustment increased the Purchased Power Costs of \$28,933,780 for the review period, on a total system--native load basis, by \$13,931,057, which resulted in a total of \$42,864,837. ORS also examined the economic purchases along with the applicable avoided costs for the review period. ORS agrees with Duke's increase to Purchased Power Costs, on a total system--native load basis, by \$13,931,057.
- (3) On Audit Exhibit JRC-7, ORS reflects Company accounting adjustments made to the per books cumulative balances in the Deferred Fuel Account in September 2005 and January 2006. The adjustments for those months are as follows: (a) In September 2005, the

Duke Energy Carolinas
S. C. Retail Comparison of Fuel Revenues & Expenses
July 2005 – September 2006

Explanation of Footnotes to Audit Exhibit JRC-7:

(3) (Continued):

Company made an adjustment to write off the final amount attributable to PSC Order No. 2004-603, which approved the Company's request to "forgo and write off the recovery of fuel costs of up to \$16 million" through September 30, 2005. This final figure was an over-recovery amount of \$5,029,850; and (b) In January 2006, Duke made three over-recovery adjustments which totaled \$57,357 for corrections to October, November and December 2005. The Company corrected its S.C. KWH Sales figures for October and December 2005, which resulted in over-recovery adjustments to the cumulative balance in the Deferred Account of \$13,270 and \$15, respectively. Duke revised its Intersystem Sales amount for November to reflect an increase in a Nantahala sale, which resulted in an over-recovery adjustment to the Deferred Account of \$44,072. ORS agreed with these adjustments.

For two months during the review period, October 2005 and May 2006, Duke also booked adjustments to the cumulative balance of the Deferred Account. An over-recovery adjustment booked in October 2005 for \$2,088 was for a correction to September 2005 System KWH Sales. An over-recovery adjustment booked in May 2006 for \$6,682 was for a revision to the Catawba Joint Owners' portion of Purchased Power Costs in April 2006. For September 2005 and April 2006's monthly PSC-filed Company fuel information, which is generally filed at least a month later, ORS' PSC-filed copies reflected the revised September 2005 and April 2006 fuel figures, which ORS verified during its audit. ORS also verified for booking purposes, that Duke booked the revised information on a true-up basis in October 2005 and May 2006, respectively. However, since ORS received this information on a revised basis, ORS reflected September 2005 and April 2006, as filed, on the revised basis in Audit Exhibit JRC-7. Therefore, ORS did not reflect the corrections/revisions booked as accounting adjustments in October 2005 and May 2006, on Audit Exhibit JRC-7, because the information would have been reflected twice.

Summary:

ORS' cumulative over-recovery of fuel costs as of actual June 2006 totaled \$6,984,672. The Company's cumulative over-recovery total as of actual June 2006 totaled \$6,987,000, on a rounded basis. The difference between the Company's and ORS' cumulative over-recovery as of actual June 2006 is \$2,328 (due to rounding). The Company's cumulative under-recovery total as of estimated September 2006 totaled (\$4,920,000). For the purpose of determining the base cost of fuel in base rates effective October 1, 2006 and based on the audit conducted in accordance with the Commission's guidelines, ORS calculated the under-recovery of (\$4,922,519) as of estimated September 2006. The difference between the Company's and ORS' cumulative under-recovery as of estimated September 2006 totals (\$2,519) (due to rounding).